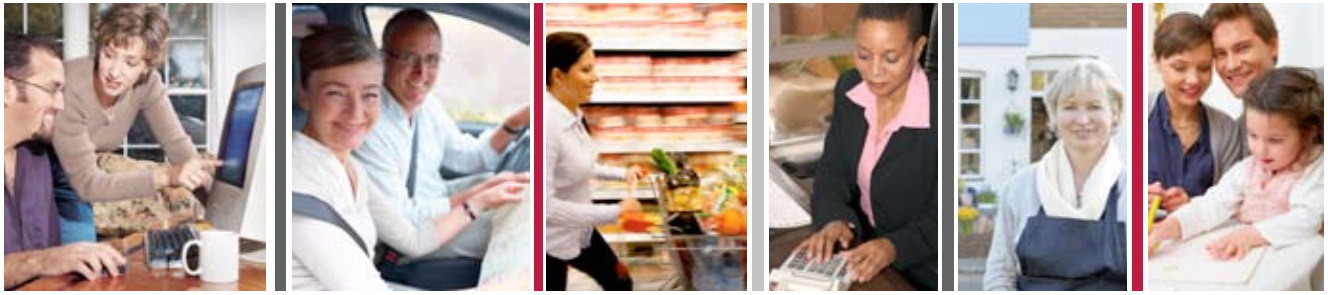


MANAGE YOUR MONEY



Lesson 2: Where Does Your Money Go?



Do you know where your money goes? You may say, “House payments, car loan, utility bills, and food.” But after that, things begin to get a bit fuzzy. You are not sure where the rest of it goes. Right?

Now that you have set your goals in Lesson 1, the next step is to learn where your money is being spent. Your own personalized plan will be built on your goals and spending patterns in Lesson 5. No matter how you feel about paperwork, it **MUST** be done. Spending information is essential for making financial decisions.

Paperwork

There are several pages of worksheets in this lesson. (Yes, it is a lot of paperwork!) To personalize your financial plan, you need your own data. Invest the time now for a better payoff later.



What Do You Owe?

What you owe may include secured debt and unsecured debt. It will be helpful in coming lessons if these are listed separately.

Secured debt is “backed” by collateral. Collateral is the property a creditor has the right to seize if you do not pay the debt. The most common examples are a home and a car. Some household items such as furniture may have the same agreement. When a creditor has collateral for your loan, he or she has a “lien” on that specific property. Creditors who have security can repossess the collateral and sell it to get their money.

Unsecured debt refers to loans without collateral. It would be more difficult for a creditor to collect an unsecured debt, so such loans may be more difficult to arrange and may carry a higher interest cost. A credit card balance is an example.

Another term to know: **APR—Annual Percentage Rate** of Interest. Interest is the money you pay to the lender for the privilege of using the money. The APR may be different from the stated interest rate because it is based on the full cost of the loan, which includes fees and other charges. The APR tells you the true cost of the loan. You will find the APR on the disclosure statement you were given when you signed papers for the loan or on the disclosure statement with a credit card application.

Worksheet 2-A: Know What You Owe

The worksheet on pages 2-5 and 2-6 of this lesson is a tool for you to list all of your consumer debt. (Do not include mortgage payments. It deals with consumer debt only.) The completed worksheet is a clear summary of your obligations—installments, personal loans, and credit card debt. It is important to gather current credit information BEFORE you can begin developing a money management plan. You may com-

plete the entire form now or just focus on monthly payment information. In Lesson 4 you will refer to the other details of debt on this form.

The average family should not commit more than 20% of take-home pay to pay off consumer debts. If your family is larger, you may need to keep commitments even lower. Credit is discussed in more detail in Lesson 4.

After you know what you owe you will be ready for the next step—to review your cash flow.

Worksheet 2-B

- When is the rent/mortgage due?
- What day do you need to mail each utility payment?
- Do not forget pay day(s).
- Use a financial calendar for an overview of income and fixed expenses. Avoid late payments by allowing adequate time for mail delivery.
- This sample calendar page illustrates examples of entries on a typical financial calendar.
- Complete a general financial calendar for your household on Worksheet 2-B, page 2-7.

Worksheet 2-B							Manage Your Money, Ohio State University Extension	
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday		
Financial Calendar						You may develop this as a general reminder of income dates and payment dates in a typical month. Record the days you need to MAIL payments so they are received on time.		
First Week	<i>allowances</i>				<i>Pay Day</i>			
Second Week			<i>phone</i>					
Third Week		<i>electric</i>		<i>credit card</i>	<i>Pay Day</i>			
Fourth Week		<i>gas</i>						
	<i>Rent due</i>		For specific reminders each month, keep a separate yearly calendar with your checkbook for financial matters. Record dates to mail payments, allowing time for mail to deliver your check.					

What Is Cash Flow?

Your cash flow is simply the money going into your pocket and checkbook and out again. It is matching up your income with your expenses. Sounds simple, doesn't it? It usually is. When you



want to have a good idea of your spending you need to keep track of what actually comes in and goes out each month.

As you fill in the worksheets in Lesson 2 you may discover you do not have complete records. For the most accurate look at your budget, it would be helpful to review expenses and income for an entire year. Unless you have that information, you will need to base estimates on information from your Spending Log/Dollar Tracker records from Lesson 1 (pages 1-1 and 1-10). Use a pencil. Do the best you can for now. As you continue to keep track of expenses you will be able to revise the worksheets.

The more accurate and complete the information on the worksheet, the easier and more effective your financial planning can be.

Income, money flowing in, is an easy calculation for a salaried worker with no other sources of funds. In contrast, a sales representative paid with commissions will need to estimate income. Seasonal workers and farm families deal with fluctuations over the entire year, rather than week to week or month to month. Planning ahead is especially important for them so funds for expenses can be set aside. If the amount of income varies, it is best to estimate income on the low side. When income is greater than expected, go back to your list of goals in Lesson 1 to identify priorities for the dollars.

Income from last year is a model for planning for the future. Add or subtract for specific adjustments you know will increase or decrease income. If it varies a lot, use the minimum figure to plan income.

Worksheet 2-C: Income (page 2-8)

The flow of cash into the budget can be summarized on the chart.

Expenses are the flow of cash out of the budget. To work on the expenses for cash flow going out, you will need to collect your bills and receipts, in addition to your check record, which will all help you keep track of your spending for the month. Your Spending Log and Dollar Tracker notes from Lesson 1 are also sources for spending data. (It could be last month's, this month's, or both.) Include both fixed and flexible expenses. Do you know the difference?

- **Fixed expenses** are items such as rent/mortgage, car payment, and other regular installment payments that basically stay the same each month and for which you are committed for a period of time. Your obligation for a fixed expense is made when you enter a contract or commitment. An example is a lease to rent an apartment or a mortgage to buy a home.

Worksheet 2-D: Monthly Fixed Expenses Budget (page 2-9)

Use your checkbook and receipts to gather figures on the repeating fixed commitments.



- **Flexible expenses** are the expenses that change from month to month such as food, clothing, and utilities. You have a bit more control over some of these items. Each purchase involves choice and decisions that determine the cost for the month.

Worksheet 2-E: Monthly Flexible Expenses Budget (page 2-10)

With limited records available, you may need to estimate some amounts for flexible spending. As you continue to keep spending records, you will have a more accurate picture of where money is going.

- **Occasional expenses** are the costs that only come periodically. Semiannual auto insurance and an annual homeowner's insurance premium are examples. Auto tags, holiday gifts, and a vacation are other occasional categories to include in your planning.

Worksheet 2-F: Occasional Expenses (page 2-11)

The calendar may help you recall expenses that are seasonal and only occur a few times during the year. Planning for this type of expense will be discussed in more detail in Lesson 5.

- Combinations may occur. For example, the basic cost of phone service can be fixed, but the extra charges are flexible based on what you use beyond your basic plan (for example, land-line long distance; cell phone minutes, text, and data).

Home Account Book

When you see how important and helpful cash flow records can be, you may want to purchase an OSU Extension Home Account Book (Bulletin 723). You can order a copy on the Internet at: <http://estore.osu-extension.org> or you can download it from: <http://ohioline.osu.edu>.

The Bottom Line

If your income exceeds expenses, you will have extra money to put into a savings plan for your financial goals. But when income does not cover all expenses, what can you do?

To balance your budget:

- Increase your income.
- Decrease expenses. Take a look at your spending habits to see if you can find some spending leaks. This topic is discussed further in Lesson 3.
- Incorporate a combination of more income and less expenses.

The most critical time to control fixed expenses is before you commit to the obligation. You have an element of control each time you make a flexible expense purchase. Are there other choices you need to consider? Are there ways for you to reduce some of your flexible expenses?

In Lesson 5 you will develop a budget to balance the cash flow.

Action Steps for Lesson 2

Complete the following checklist of activities for Lesson 2.

Action Steps	✓ Take Action Now
Check each step after you have completed it.	
<input type="checkbox"/> Continue keeping your Spending Log/Dollar Tracker.	
<input type="checkbox"/> Complete Worksheet 2-A: Know What You Owe.	
<input type="checkbox"/> Use the Financial Calendar (Worksheet 2-B) for dates bills are due and for dates you receive income.	
<input type="checkbox"/> Summarize expected income, Worksheet 2-C.	
<input type="checkbox"/> Project monthly fixed expenses, Worksheet 2-D.	
<input type="checkbox"/> Estimate monthly flexible expenses, Worksheet 2-E.	
<input type="checkbox"/> Outline occasional expenses, Worksheet 2-F.	

More Information and Sources

Clements, J., D. E. Johnson, K. Michelich, and C. F. Olinsky. 2009. *Know What You Owe, In Over Your Head*, Bulletin 891. Columbus, OH: Ohio State University Extension.

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Manage Your Money is a six-part self-study course. The lessons include:

1. Getting Started
2. Where Does Your Money Go?
3. Stop Spending Leaks
4. How Much Credit Can You Afford?
5. Develop Your Budget
6. Your Net Worth and Financial Records

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Worksheet 2-A: Know What You Owe (secured debt)

List of creditors (list largest to smallest)	Monthly payment	Due date	Total balance	Equity (amount already paid)	APR (Annual Percentage Rate of interest)	Total past due	Total debt	Item secured
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
TOTALS								

Worksheet 2-A (continued): Know What You Owe (unsecured debt)

List of creditors (list largest to smallest)	Total owed	APR	Minimum monthly payment	Due date	Credit limit	Fees for past due or over limit	Total past due	"X" if sent to a collector
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
Company Address Phone Account #								
TOTALS								

From *In Over Your Head: Lifesaving Strategies for Financial Crisis*, Pub. No. 891, Ohio State University Extension, 2009.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
<h1>Financial Calendar</h1>						
First Week						<p>You may develop this as a general reminder of income dates and payment dates in a typical month. Record the days you need to MAIL payments so they are received on time.</p>
Second Week						
Third Week						
Fourth Week						
						<p>For specific reminders each month, keep a separate yearly calendar for financial matters with your checkbook. Record dates to mail payments, allowing time for mail to deliver your check.</p>

Worksheet 2-C: Income: Month _____

Income Received Last Month	Source	Planned Income	Actual Income	+ or -	Notes
\$	*Wages (take home) Weekly _____ Bi-weekly _____ 2 X Month _____ Monthly _____	\$	\$		
\$	*Wages (take home) Weekly _____ Bi-weekly _____ 2 X Month _____ Monthly _____	\$	\$		
\$	Tips	\$	\$		
\$	Child Support/ Alimony Received	\$	\$		
\$	Unemployment Compensation	\$	\$		
\$	Food Stamps/Ohio Works First	\$	\$		
\$	Pension/Retirement	\$	\$		
\$	Social Security	\$	\$		
\$	Interest/Dividends	\$	\$		
\$	**Fluctuating or Irregular Income	\$	\$		
\$	Other	\$	\$		
\$	TOTALS	\$	\$		

* Because most bills are monthly, it is easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and bi-weekly income by 2.17 to convert to monthly amounts.

**Fluctuating income such as commissions, seasonal work, and overtime might be best figured as an annual amount and dividing by 12.

Worksheet 2-D: Monthly Fixed Expenses Budget

What I Spent Last Month	Expense	Budget	Actual	+ or -	Explanation
Pay Yourself First					
\$	Savings Goal 1	\$	\$		
\$	Savings Goal 2	\$	\$		
\$	Savings Goal 3	\$	\$		
\$	Retirement savings	\$	\$		
\$	Education	\$	\$		
\$	Emergency Fund	\$	\$		
\$	Occasional Expenses (Worksheet 5-A)	\$	\$		
Insurance (paid monthly)					
\$	Life	\$	\$		
\$	Health	\$	\$		
\$	Disability	\$	\$		
\$	Auto	\$	\$		
\$	Homeowner/renter	\$	\$		
Housing					
\$	Mortgage or rent	\$	\$		
\$	Property taxes	\$	\$		
\$	Utilities: electricity	\$	\$		
\$	Utilities: gas/propane/ oil	\$	\$		
\$	Utilities: phone(s)— basic	\$	\$		
\$	Utilities: Internet, cable	\$	\$		
\$	Utilities: trash	\$	\$		
\$	Homeowner fees	\$	\$		
\$	Other	\$	\$		
Debt Payments					
\$	Car payment(s)	\$	\$		
\$	Loans/rent-to-own	\$	\$		
\$	Credit cards	\$	\$		
\$	Other	\$	\$		
Other					
\$	Child care payments	\$	\$		
\$	Child support	\$	\$		
\$	Contributions/dona- tions	\$	\$		
\$	Allowances—adults/ child	\$	\$		
\$	Other	\$	\$		
\$	TOTAL	\$	\$		

Worksheet 2-E: Monthly Flexible Expenses Budget

What I Spent Last Month	Expense	Budget	Actual	+ or -	Explanation
Food and Beverages					
\$	At home	\$	\$		
\$	Away from home	\$	\$		
Household Operations					
\$	Maintenance/upkeep	\$	\$		
\$	Supplies (cleaning/paper)	\$	\$		
Transportation					
\$	Auto maintenance	\$	\$		
\$	Gasoline	\$	\$		
\$	Bus fare	\$	\$		
\$	Taxi fare	\$	\$		
\$	Other	\$	\$		
Clothing					
\$	Purchases	\$	\$		
\$	Laundry	\$	\$		
\$	Dry Cleaning	\$	\$		
Personal Care					
\$	Adults	\$	\$		
\$	Children	\$	\$		
Medical					
\$	Doctor visits	\$	\$		
\$	Dental	\$	\$		
\$	Vision	\$	\$		
\$	Medicines	\$	\$		
Miscellaneous					
\$	Long distance phone	\$	\$		
\$	Entertainment	\$	\$		
\$	Pets	\$	\$		
\$	Other	\$	\$		
\$	Other	\$	\$		
\$	Other	\$	\$		
\$	Other	\$	\$		
\$	TOTAL	\$	\$		

Worksheet 2-F: Occasional Expenses (Anticipate occasional expenses for the year.)

January	February	March	April
May	June	July	August
September	October	November	December